

Worksheet Solutions

Three Taxes That Influence Behavior

Theme 5: Impact of Taxes

Lesson 1: How Taxes Influence Behavior

Key Terms

direct tax—A tax that cannot be shifted to others such as the federal income tax.

excise tax—A tax on the sale or use of specific products or transactions.

gasoline excise tax—An excise tax paid by consumers when they purchase gasoline; the tax covers the manufacture, sales, and use of gasoline.



luxury tax—A tax paid on expensive goods and services considered by the government to be non-essential, such as luxury cars.



sin tax—A tax on goods such as tobacco and alcohol that pose a danger to people's health.

user tax—A tax that is paid directly by the consumer, or user, of a good, product, or service.



Summary

A **sin tax** is a **direct tax** on a product considered unhealthy, such as alcohol or tobacco. Puritan colonists used the earliest sin taxes in this country. The point of the tax is to discourage the purchase of products that pose a health risk. The **gasoline tax** is an **excise tax** paid by consumers of gasoline. Those who buy a lot of gasoline pay more taxes on it. The government, in turn, spends these tax revenues on building roads and regulating gas storage. **Luxury taxes** tax expensive, non-essential items. These taxes are **user taxes**.

Activity 1

Unscramble the words below. Then, match the words to their definitions. Write the letter of the unscrambled word in the space next to the definition.

- | | |
|-------------|-----------------|
| A. xruluy | luxury |
| B. isn | sin |
| C. sixece | excise |
| D. asleniog | gasoline |
| E. ridcet | direct |
| F. resu | user |

- | | |
|----------|--|
| D | 1. tax paid when you fill up your car |
| C | 2. tax paid on the making, sale, or use of something |
| E | 3. tax paid directly by consumer to the government |
| A | 4. tax on nonessential goods |
| B | 5. tax on products that are harmful |
| F | 6. tax paid whenever you buy and use a certain product |

Activity 2

On the lines below explain why lawmakers would want to tax cigarettes and alcohol.

Suggested Answer: A tax on cigarettes and alcohol would discourage the purchase of products that pose a health risk.

On the lines below explain why lawmakers would want to tax gasoline.

Suggested Answer: A tax on gasoline would fund the building of roads and regulate gas storage.

On the lines below explain why lawmakers would want to tax luxury goods.

Suggested Answer: A tax on luxury goods would help the economy.

Activity 3

Suppose that the government decided to significantly raise the gasoline excise tax. On a separate sheet of paper, write a paragraph explaining the impact of higher gasoline excise taxes on the groups listed below.

- independent taxi driver or trucker
- commuter
- gas station owner
- oil mogul

Suggested Answer: An independent taxi driver or trucker would pay a lot of money in direct excise taxes because his or her job involves a lot of driving. He or she would have less money to spend on other needs. A commuter who drives would face the same problem. In some cases, a commuter can take the bus, train, or subway to avoid the tax increase. A gas station owner would have to raise the price of the gas to cover the new tax increase. He or she might see a downturn in business if people cut back on their nonessential driving. An oil mogul also might see a downturn in gas purchases from the refineries.